

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-03

H-01 PA-01 PRS-01 ACDA-07 AGRE-00 SEC-01 /094 W

-----041854Z 025818 /44

R 041606Z MAR 77

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 0418

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DEPT PASS TREASURY FOR SYVRUD

E.O. 11652: N/A

TAGS: EFIN, ECON, ELAB, PO

SUBJ: ECONOMIC DEVELOPMENTS: FURTHER REACTION TO ECONOMIC REFORMS

REF: (A) LISBON 1554, (B) LISBON 1671, (C) LISBON 1708

SUMMARY: FEB 25 GOP EMERGENCY RECOVERY PACKAGE AND ITS IMPACT REMAIN KEY TOPIC AND HAVE OVERSHADOWED PROPOSED CONSORTIUM LOAN AND EC MEMBERSHIP QUESTIONS. ASSEMBLY DEBATE ON PACKAGE HAS BEEN SCHEDULED FOR MAR 16 AND 17; CDS BACKING ON ESSENCE OF GOP PROGRAM IS LIKELY AND PSD LEADER SA CARNEIRO HAS EXPRESSED "CERTAINTY" HIS PARTY WILL HAVE NO MAJOR OBJECTIONS TO PACKAGE. LABOR REACTION TO MEASURES REMAINS MEASURED. WHILE SUCCESS OF PACKAGE WILL ULTIMATELY DEPEND ON SEVERAL UNKNOWNNS, A FEELING IS GROWING THAT A CORNER HAS BEEN TURNED. END SUMMARY.

1. ECONOMIC REFORMS: ONE WEEK HAS ELAPSED SINCE GOP'S FEB 25 ANNOUNCEMENT OF ESCUDO DEVALUATION AND EMERGENCY RECOVERY MEASURES (REF A). THOSE DECISIONS AND THEIR PROBABLE IMPACT, HOWEVER, REMAIN UPPERMOST IN MINDS OF LIMITED OFFICIAL USE

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MOST PORTUGUESE.

2. LOAN AND EC MEMBERSHIP OVERSHADOWED: PUBLIC AND PRESS PREOCCUPATION WITH IMMEDIATE EFFECTS OF EMERGENCY PACKAGE HAS TENDED TO OVERSHADOW QUESTIONS OF CONSORTIUM LOAN AND PORTUGUESE ENTRY INTO EC. SOARES ALLUSIONS TO LOAN IN MAR 1 ADDRESS AND PRESS REPORTS OF CARTER

ADMINISTRATION SUPPORT FOR CONSORTIUM HAVE CREATED GENERAL IMPRESSION THAT AGREEMENT ON LOAN HAS ALL BUT BEEN REACHED. COMMUNIST-LINING PRESS, MEANWHILE, HAS PORTRAYED DEVALUATION AS WESTERN PRECONDITION FOR CONSORTIUM LOAN AND PORTUGUESE MEMBERSHIP IN EC. SOARES DEPARTS ON SECOND LEG OF HIS EC MEMBERSHIP CAMPAIGN MARCH 7, CULMINATING IN MARCH 12 MEETING WITH EC EXECUTIVE COMMISSION IN BRUSSELS.

3. FURTHER REACTIONS: LATEST DEVELOPMENTS IN REACTION TO THE GOVERNMENT'S EMERGENCY MEASURES INCLUDED:

-- DEBATE SCHEDULED: NATIONAL ASSEMBLY DEBATE REQUESTED BY SOCIAL DEMOCRATIC PARTY (PSD) TO AIR GOP ECONOMIC PROGRAM HAS BEEN SCHEDULED FOR MARCH 16 AND 17. SOARES WILL SPEAK FOR GOP. CENTER DEMOCRATS ARE EXPECTED TO SECOND GOP ON PACKAGE'S MAIN POINTS. IN REMARKS TO PRESS FOLLOWING MARCH 3 MEETING WITH PRIME MINISTER SOARES, PSD LEADER SA CARNEIRO EXPRESSED "CERTAINTY" THAT PSD WOULD BE ABLE TO "GIVE POSITIVE SUPPORT, ALBEIT WITH CERTAIN CRITICISMS, TO THE (GOP) ECONOMIC RECOVERY POLICY." SA CARNEIRO ANNOUNCED FURTHER THAT HE HAD REQUESTED MEETING WITH SOARES TO CONVEY PSD ENDORSEMENT FOR GOVERNMENT BILL DELINEATING PRIVATE AND PUBLIC SECTORS.

-- MARKETPLACE: EMBASSY SPOT CHECKS INDICATE THAT SHORTAGES REPORTED IMMEDIATELY AFTER ANNOUNCEMENT OF AUSTERITY MEASURES HAVE DISAPPEARED. PRICES HAVE NOT YET RISEN SIGNIFICANTLY ABOVE PRE-ANNOUNCEMENT LIMITED OFFICIAL USE

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LEVELS, WHICH PROBABLY EXPLAINS LACK OF ORGANIZED CONSUMER REACTION TO NEW MEASURES. GOVERNMENT IS LAUNCHING MAJOR EDUCATION EFFORT IN ATTEMPT TO HEAD OFF ANY WIDESPREAD CONSUMER PROTEST. COMMERCE SECRETARY ANTONIO BARRETO TOOK TO NATIONAL TELEVISION MAR 3 TO EXPLAIN UNDERLYING CAUSES OF PRICE INCREASES. HE REAFFIRMED SOARES' EARLIER PLEDGE THAT PRICES OF "SHOPPING BASKET" ITEMS WOULD REMAIN FIXED FOR FULL YEAR AND THAT SPECULATION AND PROFITEERING WOULD BE PUNISHED. SYMPATHETIC NEWSPAPERS MEANWHILE HAVE DWELLED ON NEED FOR CIVIC CONSCIOUSNESS AND PATRIOTISM.

-- LABOR REACTION MEASURED: THE COMMUNIST-CONTROLLED LABOR CONFEDERATION (CGTP) PREDICTABLY DENOUNCED THE GOVERNMENT'S AUSTERITY MEASURES, AND PROTESTED "RIGHTIST POLICIES UNRELATED TO BUILDING A SOCIETY ON THE ROAD TO SOCIALISM." THE CGTP CALLED FOR NATIONAL DEMONSTRATION MAR 24 AGAINST RISING LIVING COSTS, A MOVE SUPPORTED BY A PCP-BACKED WOMEN'S GROUP. (REF C). THE CGTP ALS DEMANDED

AN END TO LIMITATIONS ON WAGE INCREASES, RAPID
CONCLUSION OF LONG-STALLED SECTORAL COLLECTIVE CONTRACTS,
PREVENTION OF WORKER DISMISSALS WITHOUT "JUST CAUSE,"
AND CHANGES IN THE GOVERNMENT'S DECREE REGULATING
ELECTIONS FOR WORKERS' COMMISSIONS. CGTP REACTION WAS,
ON BALANCE, LESS STRIDENT THAN EXPECTED, LEAVING OPEN
THE POSSIBILITY OF COOPERATION WITH THE GOVERNMENT.
(COMMENT: THE MEASURES CGTP RESPONSE WAS AN ATTEMPT TO
PRESERVE THE ILLUSION OF A POLITICALLY NONALIGNED POSTURE
DESIGNED TO ATTRACT INDEPENDENT UNIONS AND LEFT-WING
SOCIALIST SUPPORT. UNRELENTING OPPOSITION TO THE
GOVERNMENT'S MEASURES WOULD RISK LOSING THE LIMITED
EXISTING NON-PCP PARTICIPATION IN THE CGTP LEADERSHIP
AND RECONFIRM THE CONFEDERATION'S ROLE AS A POLITICAL
TOOL OF THE PCP.)

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4. STRKES HAVE LIMITED RESPONSE: STRIKES
CALLED BY CIVIC CONSTRUCTION AND TEXTILE WORKERS FOR
MAR 3 WERE IGNORED IN MANY AREAS. ADHERENCE TO THE
ONE DAY A WEEK TEXTILE STRIKE WAS ESTIMATED BY
AMCONSUL OPORTO, AS SOMEWHAT LESS THAN THE PREVIOUS
WEEK. CIVIL CONSTRUCTION WORKERS IN SEVERAL MAJOR
LISBON FIRMS CONTINUED WORKING. OPORTO REPORTED 80
PERCENT STOPPAGE. SOCIALIST LABOR STRATEGIST MADUREIRA
TOLD LABATT MAR 3 THAT GOVERNMENT AGREED THAT CONSTRUCTION
WORKERS SHOULD HAVE WAGE INCREASE. MINIMUM WAGE RATES
WERE STILL AT 1974 LEVELS, AND NEGOTIATIONS FOR NEW
CONTRACT HAD DRAGGED ON FOR 20 MONTHS. ALL NIGHT

NEGOTIATIONS BETWEEN UNION AND GOVERNMENT TEAM MAR 2
REACHED AGREEMENT ON NEW MINIMUM WAGE RATES TO BE
PUBLISHED SOON. MADUREIRA CLAIMED, HOWEVER, THAT RELA-
TIVELY POOR WORKER RESPONSE TO RECENT STRIKE CALLS
LEADS GOVERNMENT TO DISCOUNT ABILITY OF CGTP TO CALL
AN EFFECTIVE GENERAL STRIKE.

5. ADDITIONAL GOP MEASURES: EMERGENCY PACKAGE ANNOUNCE-
MENT AND ITS AFTERMATH HAS OBSCURED OTHER RECENT GOP
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MEASURES:

-- STOCK EXCHANGE REOPENS: LISBON STOCK EXCHANGE
REOPENED FEB 28 FOR TRADING OF COMMON STOCK, BUT TO
DATE NO TRANSACTIONS HAVE OCCURRED. EXCHANGE, CLOSED
SINCE APRIL 25, 1974, HAD REOPENED FOR BOND TRANS-
ACTIONS IN 1976. DUE TO GOVERNMENT ELIGIBILITY REGU-
LATIONS, ONLY 21 FIRMS HAVE TO DATE BEEN LISTED BY
EXCHANGE. OTHERS ARE PREPARING DOCUMENTATION NECESSARY
FOR LISTING. ONLY ONE PURCHASE BID WAS FORTHCOMING
ON EXCHANGE'S FIRST DAY OF OPERATIONS; ON MAR 2, THE
SECOND DAY OF OPERATION, THERE WERE FOUR.

-- INTEREST PAYMENT AUTHORIZED: ON FEB 24 GOP
AUTHORIZED PAYMENT OF INTEREST TO SHAREHOLDERS OF
TORRALTO CORP, WHICH WAS ONE OF PORTUGAL'S LARGEST
HOLDING COMPANIES BEFORE ITS NATIONALIZATION IN 1975.
EXACT AMOUNTS DUE SHAREHOLDERS WILL BE DETERMINED BY
JOINT COMMITTEE INCLUDING TORRALTA, FINANCE MINISTRY,
AND CENTRAL BANK REPRESENTATIVES.

-- DISINTERVENTION: ALTHOUGH IT FAILED TO MEET ITS
FEBRUARY 28 DEADLINE TO END ITS CONTROL OF SEVERAL
HUNDRED INTERVENED FIRMS, THE GOP IS MOVING AHEAD TO
DISINTERVENE ON A CASE BY CASE BASIS. RECENT OFFICIAL
BULLETINS HAVE CARRIED ORDER TO TERMINATE DISINTER-
VENTION OF SEVEN FIRMS BY MAR 31. ON FEB 19 WORKER
COMMISSION REPRESENTATIVES FROM AN ALLEGED 160 FIRMS
MET IN LISBON UNDER THE AUSPICES OF THE CGTP TO
DISCUSS GOP DISINTERVENTION PLANS. MEETING PRODUCED
MOTION PROTESTING RETURN OF INTERVENED FIRMS TO
FORMER OWNERS AND CONDEMNING PRECIPITOUS WITHDRAWAL
OF NECESSARY GOVERNMENT FINANCIAL SUPPORT.

6. EXCHANGE RATE: LISBON ESCUDO/DOLLAR CHECK BY
RATE CLOSED AT 38.691 MAR 3.

7. COMMENT: THE ULTIMATE EFFICACY OF THE GOP'S FEB 25
RECOVERY PACKAGE WILL DEPEND UPON A NUMBER OF
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UNKNOWN, INCLUDING THE GOVERNMENT'S DETERMINATION TO
IMPLEMENT THE NEW MEASURES, TO MAINTAIN THE 15 PERCENT
WAGE INCREASE LIMIT, AND TO CONTAIN EXPANSION OF THE
MONEY SUPPLY. NONETHELESS, A GENERAL FEELING IS GROWING
THAT THE GOP HAS TURNED A SIGNIFICANT CORNER.
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